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*Report of the
Alberta Heritage Savings Trust Fund Review Committee*

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*Future Directions for Alberta's
Heritage Fund*

March 28, 1995



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March 28, 1995

Premier Ralph Klein
307 Legislature Building
Edmonton, Alberta T5K 2B6

Dear Mr. Klein:


It has been a privilege to serve on the Alberta Heritage Savings Trust Fund Review Committee.

Although conducting this review has been a challenge, our task was made easier by the invaluable advice we received from Albertans. We are grateful for the thoughtful comments and insightful suggestions we received—at the public hearings and round table discussions, and in written submissions and returned questionnaires.

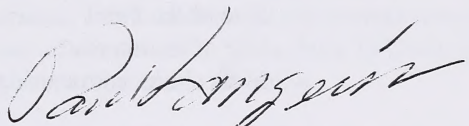
As expected, Albertans had a variety of views about the most appropriate future course for the Alberta Heritage Savings Trust Fund. There were some who either strongly supported keeping the Fund or strongly supported liquidating it. There were also many who suggested new directions that would take into account both the advantages and disadvantages of the current Fund.

We have considered all of the ideas that were presented to us, and have discussed them among ourselves. We have now concluded our deliberations and are pleased to present you with our report. We trust that our advice and recommendations will be helpful to you and to all members of the government.

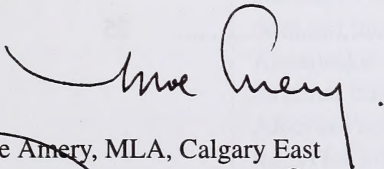
Sincerely,



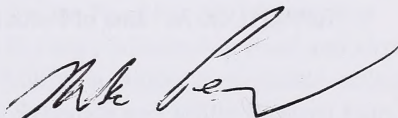
Clint Dunford, MLA, Lethbridge West
(Chairman)



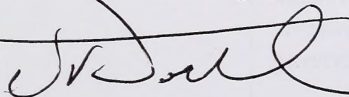
Paul Langevin, MLA,
Lac La Biche-St. Paul



Moe Amery, MLA, Calgary East



Mike Percy, MLA, Edmonton Whitemud



Victor Doerksen, MLA, Red Deer South

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1. The Heritage Fund: History and Context

When the Heritage Fund was established in 1976, Alberta's economy was booming. The price of oil had more than doubled since 1972, and many thought the price would go as high as \$80 a barrel.

Because of increasing royalties, government revenues began to soar, and they continued to do so for the next ten years. Predictably, government spending increased rapidly during this period as well. But the revenues from oil and gas were always high enough to pay for all benefits and services that Albertans needed and wanted. And, after the books were balanced, there was still more money left over!

The government of the day realized that this prosperous economy would not last forever, and therefore decided that 30% of the province's oil and gas revenues should be set aside for the benefit of future generations. The Alberta Heritage Savings Trust Fund was set up, with these three basic objectives:

1. to save for the future
2. to strengthen and diversify Alberta's economy
3. to improve the quality of life in Alberta.

Just a few short years later, the boom did end. From 1983 to 1987, the government decided to reduce contributions to the Heritage Fund to 15% of the income from oil and gas revenues, and to transfer all the income earned by the Fund into the general revenues of the province. Then, from 1987 on, the government stopped putting any more money into the Fund.

In September 1994, four independent investment companies assessed the Heritage Fund's market value at approximately \$11.4 billion. (This amount does not include capital projects that the Fund has paid for, such as Kananaskis Country, the Alberta Heritage Scholarship Fund and airport terminal buildings, and about \$1 billion in project investments such as Alberta-Pacific Forest Industries, Syncrude and Millar Western Pulp.) All of the \$11.4 billion is invested—in cash and short-term securities, in equity investments, and in loans to Alberta crown corporations and other provincial governments and their agencies.



The interest earned each year from the Fund is spent on priority areas such as health, education and social services. The interest provided for these purposes has added up to \$15.4 billion since 1982, and the amount of interest earned continues to be almost \$1 billion per year. Over the past three years, the average rate of return earned by the Heritage Fund has been higher than the cost of servicing the province's debt (10.5% as compared to 9.0%).

However, during the good times Albertans developed high expectations. People became accustomed to high quality programs in education, health and social services, and to a first-class public infrastructure of roads, airports, community halls, parks and other resources and capital assets.

One presenter at the public hearings described the situation this way:

There was a day when Albertans asked their government, "How much money is available?" Then they decided what could be acquired and planned for, without much regard for the actual need for such assets and services. Now, we have to get back to saying to the government, "This is what we must have. Tell us how much we have to contribute in order to get that."

In 1995, the boom times are a fading memory. For several years, expenditures exceeded revenues. We are now dealing with the results. Like most other governments in North America and throughout the world, the government of Alberta is striving to pay down a huge public debt and working with their electors to "trim the fat" in government expenditures.

As of March 31, 1994, Alberta's gross liabilities stood at \$31.7 billion while the financial assets amounted to \$18.3 billion, leaving the province with a net debt of \$13.4 billion. Of the total net debt position, unfunded pension liabilities accounted for \$5.1 billion and non-pension debt accounted for \$8.3 billion.

The government's "Budget '95" report states: "Debt is like a straightjacket. Bankers, rating agencies and international money traders have more influence over highly indebted governments than do their own citizens. Debt makes governments especially vulnerable to changes in economic conditions. Adverse swings in interest and exchange rates can throw fiscal plans off course, threatening vital public programs."



It was in this context that the Alberta government made a commitment to take another look at the Fund and decide what its long-term future should be. The government decided to set up an all-party Review Committee that could consult with Albertans and consider the following issues and any other relevant matters concerning the Fund:

- how the Heritage Fund fits in with the government's overall financial picture
- the public's concerns about effective management of the Heritage Fund.

II. The Review Process

Background

In December 1994, Premier Ralph Klein announced that there would be a public consultation process to determine Albertans' views on the future of the Alberta Heritage Savings Trust Fund. People would be asked to respond to these questions:

Question 1: Is this the best time to make a long-term decision about the Heritage Fund ... or should we wait for the government to show it can keep the budget balanced and begin to pay down the debt?

Question 2: If we make a decision now, what should it be? Keep the Fund with a new role for the future? Or sell it off to reduce our debt?

The government also stated that the following principles would guide the review process:

1. If the Fund continues to exist, it will have clear and measurable objectives and a well defined investment strategy to get the best possible returns.
2. This discussion is about the investment portion of the Fund, not capital projects that the Fund has paid for. These assets will remain for the long-term future benefit and enjoyment of Albertans. However, the Fund will not be used to pay for any more capital projects after March 31, 1995.
3. If the Fund is liquidated, the money will not be used to support regular government programs. This route would only raise expectations and then in a year or two the deficit problem would reappear.



4. The government is going ahead with a legislated debt plan regardless of the decision about the future of the Heritage Fund. If the people of Alberta support using the Fund to address the debt, that would be in addition to the debt plan.

On January 16, 1995, when Provincial Treasurer Jim Dinning provided information about how the review would be conducted, he stated:

The future of the Heritage Fund is more than a dollars and cents decision. We need to weigh all the options, search for the best advice and make a decision that's right for the province. And the best advice will come from Albertans.

Membership of the Committee

An all-party, five-member Review Committee was established. The members were:

Clint Dunford, MLA, Lethbridge West (Chairman)
Victor Doerksen, MLA, Red Deer South
Moe Amery*, MLA, Calgary East
Paul Langevin, MLA, Lac La Biche-St. Paul
Mike Percy, MLA, Edmonton Whitemud.

* On February 16, Mr. Amery replaced Denis Herard, MLA, Calgary Egmont, who had to step down because of other duties.

Mandate of the Committee

The Committee was given these terms of reference:

- receive and review submissions from interested Albertans on the future of the Heritage Fund
- review Albertans' responses to the government's information circular mailed to Alberta households
- determine whether there is an Alberta consensus on the future of the Heritage Fund
- based on Albertans' views received from public meetings and questionnaire, provide a report and make recommendations to the government on principles that should guide the governments' decision on the future of the Heritage Fund.



Consultation with the Public

To facilitate consultation with Albertans, the Committee used a 12-page information booklet entitled "Can we interest you in an \$11 billion decision?" (Government of Alberta, 1995). The booklet provided an overview of how much the Fund is worth, highlights of how the Heritage Fund has been used in the past, and a discussion of options for the future.

The consultation process involved two major components:

1. public hearings and round table discussions around the province, and
2. distributing the information booklet to all Alberta households, with a request to complete and return an enclosed questionnaire.

Public hearings and round table discussions

In February 1995, the Review Committee travelled to eight locations in the province. The dates and locations were:

February 10	Grande Prairie (Grande Prairie Regional College)
February 11	Fort McMurray (Keyano College)
February 16	Edmonton (Grant MacEwan Community College)
February 17	Wainwright (Communiplex)
February 18	Red Deer (Red Deer College)
February 22	Calgary (Mount Royal College)
February 24	Lethbridge (Lethbridge Community College)
February 25	Medicine Hat (Medicine Hat College)

These events were advertised in daily and weekly newspapers.

The Review Committee heard approximately 50 formal and informal oral presentations. As well, between 10 and 25 people attended each of the eight round table discussions (approximately 160 people in total). Participants in the round table discussions were not expected to reach a consensus. Instead, facilitators for each discussion group were asked to prepare a brief summary of the key points raised and to provide an oral report at the close of the round table sessions.

In addition, Albertans were invited to provide written submissions to the Review Committee, either in conjunction with or instead of an oral presentation.



For a complete list of participants in the public hearing and round table component of the review, see Appendix A.

Questionnaires

By the end of February (the deadline for responding), 50,515 Albertans had completed and returned the questionnaire that was included in the information booklet. Since a total of 1.1 million had been mailed out, this represents a response rate of about five percent.

Questionnaire respondents were also invited to provide additional advice and comments, and many did.

A significant number of Albertans who received the information booklet in the mail called the Alberta government's 1-800 line to share their comments and request additional information. Over 1700 calls about the Heritage Fund and over 1400 calls about the province's deficit/debt situation were logged over a six-week period.

III. What the Committee Heard and Learned

Questionnaire Results

The questionnaire asked people to respond to these questions:

Question 1: Is this the best time to make a long-term decision about the Heritage Fund ... or should we wait for the government to show it can keep the budget balanced and begin to pay down the debt?

Option A. Make a decision now. The Heritage Fund has outlived its prime. It's time to do something else with the Fund.

Option B. Let's wait. The Heritage Fund is our legacy. It's too early and the situation is too uncertain to make an irrevocable decision now. Once it's gone, it's gone.

Question 2: If we make a decision now, what should it be? Keep the Fund with a new role for the future? Or sell it off to reduce our debt?

Option C. As long as we have a good plan for paying down the debt, keep the Heritage Fund. It's an Alberta legacy and the concept of having an RRSP is still a good one.



Option D. Sell the Heritage Fund, get as much as you can for it, and use the money to pay down some of Alberta's total debt.

Chart 1 summarizes the overall response to the questionnaire.

CHART 1 What Albertans Told Us

	Keep	Sell	Other Options	No Preference Indicated
Decide Now	2,306	6,191	717	177
Decide Later	35,392	335	317	1,212
Undecided	97	6	25	23
Other Options	347	57	640	84
No Preference Indicated	1,322	539	215	513

Of the 50,515 Albertans who responded, 3,923 didn't indicate a preference on keeping or selling the Fund and 3,868 didn't indicate a preference on when to decide or suggested a range of other options.

As indicated in Chart 2, an overwhelming number of questionnaire respondents (37,256 out of a total of 50,515) took a wait-and-see approach (Option B). That is, they said they would prefer to have a decision on the Fund made at a later date. However, the wording of the question implied that "deciding now" meant "doing something else with the Fund."

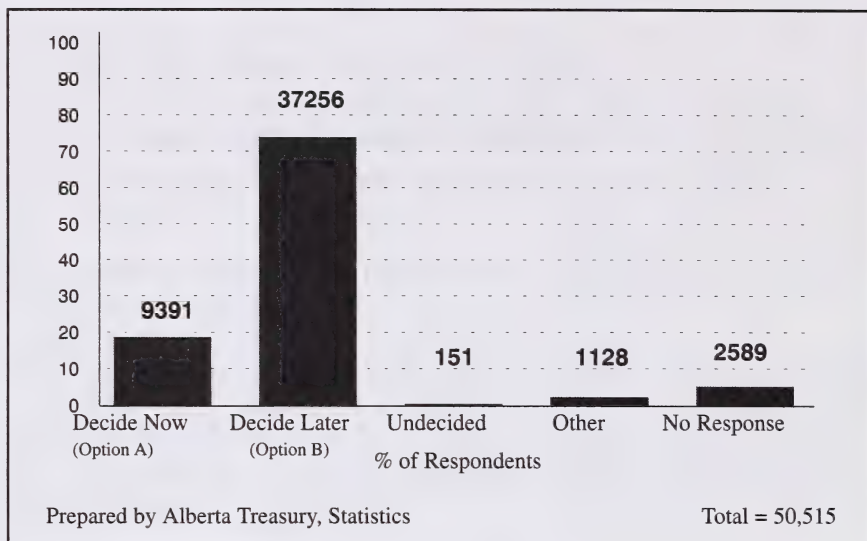
Chart 3 shows that the vast majority of questionnaire respondents (39,464 or close to 80%) wanted to keep the Fund (Option C).

The questionnaire results also revealed that:

- The vast majority of those who said they preferred to defer a decision on the Fund (Option B) also wanted to keep it (Option C).
- Those who want to sell the Fund (Option D) wanted to see action now (Option A).



**CHART 2 Alberta Heritage Fund Survey
- Decide Now or Decide Later**



**CHART 3 Alberta Heritage Fund Survey
- Keep or Sell the Fund**

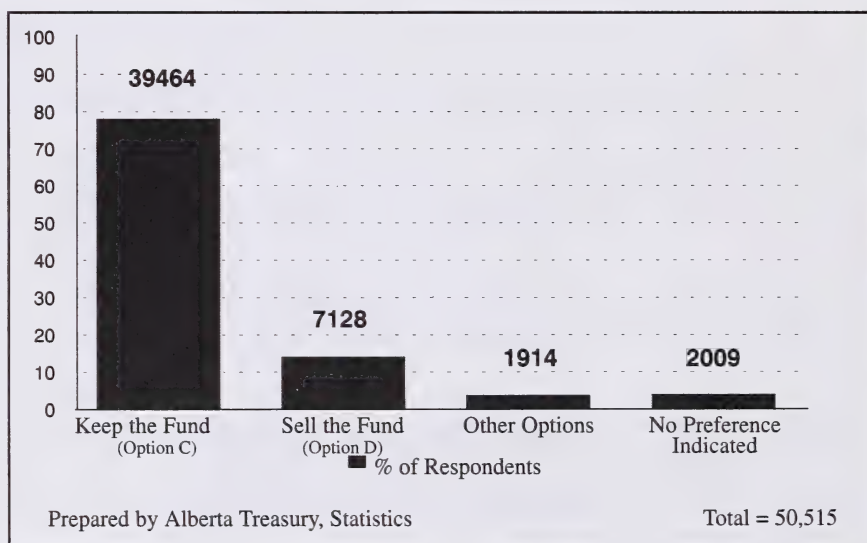


Chart 4 summarizes the written comments that respondents provided on the questionnaires. The number one comment on the questionnaires was, "Keep the Fund as is." The second most common recommendation was to keep the Fund but have it play a role in addressing the provincial debt (indicated as "Keep-Debt" in Chart 4).

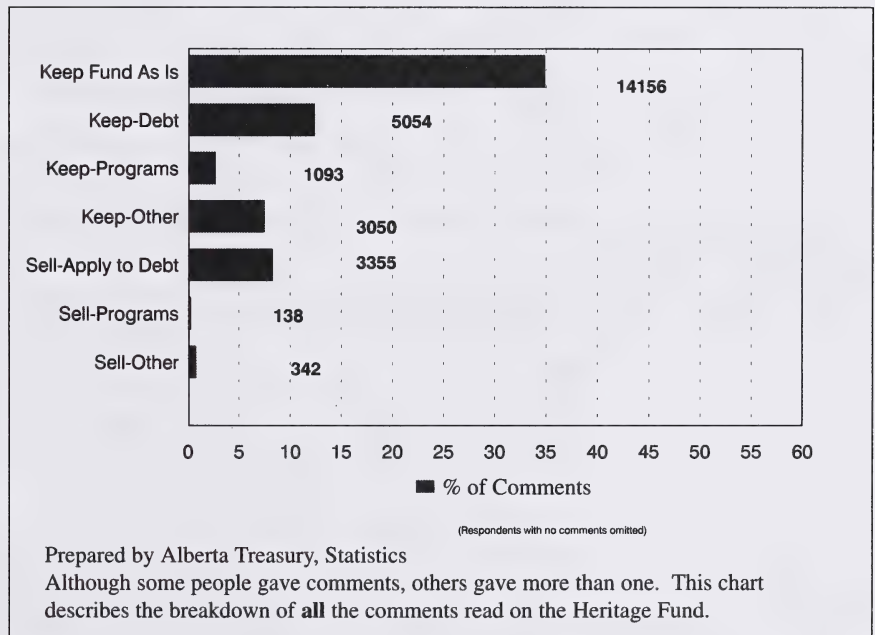


Other main categories of comments were:

- keep the Fund and use revenues to fund programs ("Keep-Programs")
- keep the Fund and use revenues for purposes other than programs or paying down the debt ("Keep-Other")
- sell the Fund and apply the proceeds to paying down the debt ("Sell-Apply to Debt")
- sell the Fund and use revenues to fund programs ("Sell-Programs")
- sell the Fund and use revenues for purposes other than programs or paying down the debt ("Sell-Other").

All other comments, which were many and varied, are included under the "Other" heading in Chart 4. A number of these comments are included in the following paragraphs, which describe the many ideas and views that Albertans conveyed to the Review Committee.

**CHART 4 Alberta Heritage Fund Survey
- Distribution of Comments**



The people of this province made a tremendous contribution to the review process by sharing their thoughts at public hearings and in round table discussions, through written submissions and letters enclosed with completed questionnaires or sent separately, and by telephone. People spoke about Alberta's overall financial situation as well as about possible future directions for the Fund. They also had a few comments on the review process itself.



Comments on the Review Process

Many people commented on the review process. They said they appreciated the opportunity to express their views, and to have their questions answered. People who attended the round table discussions often said that these sessions gave them a better understanding of the Fund, and of related issues such as the provincial debt.

The questionnaire response rate was high, but the turnout at the hearings and round table discussions was relatively low. Some participants in the public sessions thought people might find it difficult to discuss the Fund because it is a complex subject. Many, however, attributed the limited response to a lack of publicity. A number of people said they did not receive the information brochure in the mail and had not seen the public notices in their local newspapers.

One participant asked why the information brochure had not been produced in alternative formats for persons with special needs (braille, large print and audiotape). The Chairman apologized for the oversight and said that the Review Committee would recommend that discussion papers be made available in alternative formats during future public consultations.

Another topic of discussion was people's perceptions of bias in the information brochure. Interestingly, some thought the brochure was biased towards keeping the Fund and others thought it was biased towards selling it.

Statements about Alberta's Natural Resources

The two questions that Albertans were asked to respond to in this review focused on the future of the Heritage Fund. However, several presentations to the Review Committee also addressed a closely related issue, the management and use of Alberta's natural resources.

A few participants noted that our assets in this province include natural resources as well as money. Therefore, resources should be included when we talk about our fiscal situation, and we should be paying as much attention to the stewardship of our resources as we do to the investment of our dollars. People also mentioned that resource development policies have a lot to do with economic stability in this province.



Our heritage is oil in the ground and trees in the bush. Leave these resources there until we need them.

*- Richard Harpe,
Grande Prairie Public Hearings*

At two of the public hearings, people asked why forests are not used as a source of revenue for the Heritage Fund, along with oil and gas.

Statements about Balancing the Budget and Paying Down the Debt

Some people took the opportunity to remind the Committee that various groups in our society are being significantly affected by current budget reduction initiatives; for example, seniors, students in schools, people who need medical care and those who drive on roads that need repair. But participants in the review process had differing opinions about the degree of hardship that these budget reductions are imposing.

Some emphasized the importance of helping people, not just out of compassion but also because people are one of our most valuable resources. One person remarked, "People have built this country."

Others said there is still fat in the system. People who expressed this view generally felt that we have developed excessively high expectations during the good times and must now learn to be less wasteful with public funds. Some of these people saw the Fund as a good way of keeping some money aside while we struggle to spend less and live within our means.

Maybe we should re-evaluate the Fund. But not now. Wait until after we have our debt and greed under control.

- David Baugh, Red Deer Public Hearings

Many people described the Heritage Fund as a savings account for a rainy day. Some said, "It is not raining yet," while others stated that it may not be raining but it is getting very cloudy.

If it's raining, we're holding the hose.

- Red Deer Round Tables



We are dismantling our education and health care systems in the name of fiscal responsibility.

- Carol Anne Dean, President,
Alberta Union of Public Employees

A number of people also expressed a wish to deal with the debt as soon as possible. They said that since our generation produced the debt, it is our job to get rid of it.

Regardless of which viewpoint people took, however, virtually all participants said that people do not want to, and cannot, pay more taxes. There was at least one notable exception. The Alberta Union of Public Employees, which made presentations at six of the eight public hearings, provided a written submission that makes note of Alberta's low tax effort in comparison to other provinces in Canada. The submission implies, but does not state directly, that Albertans should be paying taxes at the national average and that corporations should be paying higher taxes.

Statements about the Value of the Fund

Some of the people who supported keeping the Fund said it has symbolic and emotional value, and others compared the Fund to a savings account or an RRSP.

The symbolic and emotional value of the Fund

After eighteen years, the Alberta Heritage Trust Fund has become a part of Alberta's history and culture. Many people feel an emotional attachment to it, despite some of the controversial investments and projects that have been connected to it in the past. Others take a more critical view and speak ironically about the government's "sacred trust." Overall, however, many people seem to agree that the Fund is comparable to the family farm. In other words, decisions about the Fund go beyond simply looking at a balance sheet (although the bottom line is clearly important as well).

These are some of the other comments that the Review Committee received about the value of the Fund:

The Fund has become a source of pride and a symbol of what it is to be an Albertan.

- Allan Warrack, *Edmonton Public Hearings*



The Fund is a tremendous gift of the creator and of nature, so we should not give it away easily.

- B.Y. Card, *Lethbridge Public Hearings*

The Fund as a savings account or RRSP

Many participants in the review process saw the Fund as a cushion or a buffer. People compared it with the emergency funds that households maintain to increase their financial security, or with the reserves that municipal governments set aside for future capital projects.

Some said the resource revenues Alberta collected in the 1970s and early 1980s should be treated as a windfall. This one-time income from non-renewable resource revenues should not be used for daily expenditures but rather kept for a special purpose (in this case, for the benefit of future generations).

Many noted as well that the Fund, unlike most savings accounts, earns a higher average rate of return than the cost of servicing the debt.

In a household, a savings account provides a cushion. It lets you feel more in control.

- Milton Hommy,
Grande Prairie Public Hearings

Statements Describing the Fund as a Liability

Those who favoured liquidating the Fund or substantially modifying its current form tended to use these three arguments:

1. The Fund is not a good financial strategy.
2. The existence of the Fund prevents people from facing financial realities.
3. Investing on behalf of the people of Alberta is not an appropriate role for government.



The financial viability of the Fund

Some expressed disappointment that the Fund has not grown to the degree that they expected it would. In fact, the value of the Fund is decreasing because of the inflation factor. And, in a 1994 paper assessing the Fund, Allan Warrack of the University of Alberta Faculty of Business concludes that the overall performance of the Fund has been weak.

Others said that, although the Fund is earning a good rate of return, we cannot be certain of the actual value of its assets. The government may encounter difficulty if it wants to cash in some of its investments and get full value for them (for example, the loan to Newfoundland).

Glen Mumey of the University of Alberta's Faculty of Business submitted his annual evaluation of the Heritage Fund, dated November 1994. In this report, Dr. Mumey assesses the value of the Fund on March 31, 1994, at \$8.5 billion. (The government's assessed value for that date was \$11.9 billion.) Mumey says that the \$2.1 billion that the Alberta government has loaned to itself cannot be meaningfully collected. "... replacing a dollar you have removed from your personal piggy bank with your own one-dollar IOU does not alter the fact that there is a dollar less in your piggy bank." As well, he states that the loans to Alberta crown corporations are overvalued; the assets owned by these corporations are worth less than their debt to the Fund.

Some people thought that, since the debt is much larger than the value of the Fund, it makes sense to use this money to reduce the debt.

Creating a false sense of security

Several people said that the Fund leads Albertans and other Canadians to believe we have a "pot of gold" that we can turn to solve any fiscal emergencies we may encounter. If the Fund were liquidated, our true financial situation would become more apparent. Some people who argued this position said that if we want to fulfil our obligations to future generations we should give them a budget surplus and a debt-free province instead of a Fund.

The Fund is left over from the boom days; it has led government to build up an astounding debt.

- C.R. Guest, Calgary Public Hearings



The Fund can distort the actual state of the province's financial picture ... (The government should) ensure effective financial management through the knowledge that only one fund exists—the GRF—and that elected leaders base their year-to-year budgeting on one measurable source.

- *Doug Mitchell, President,
Calgary Chamber of Commerce
(written submission)*

Some mentioned that the federal government and other provinces are envious. Other Canadians see Alberta as a wealthy province because it has the Fund.

One person said that dependence on Fund revenues has resulted in the “most skewed tax structures in North America.”

An appropriate role for government?

A number of people thought that the government should not be managing and investing taxpayers' money. They said the government should be collecting only as much as it needs to provide current benefits and services to the people.

Some who supported this view mentioned that the government's track record in picking winners and losers (private sector investments) does not inspire confidence.

We do not elect government to manage investment funds.

- *Al Schalm, Edmonton Public Hearings*

I have never said that my MLA should be my banker.

- *Calgary Round Tables*



Suggestions for Improving the Fund

Appropriate objectives for the Fund

Several people chose to talk about appropriate overall objectives of the Fund. As mentioned earlier in this report, the three original purposes of the Heritage Fund were:

1. to save for the future
2. to strengthen and diversify Alberta's economy
3. to improve the quality of life in Alberta.

Much of the discussion about objectives centred on the issue of whether the Fund was intended for:

1. use on a "rainy day,"
or
2. to provide "stewardship" of the revenue the government has received from non-renewable resources, which are likely to be depleted at some time in the future.

The "rainy day" people thought the Fund should be used when the government's fiscal situation becomes difficult. Often (as was also described earlier in this report), people went on to debate whether or not Alberta's economy is in difficulty right now.

The "stewardship" people thought the Fund should be saved for the benefit of future generations, at a time when non-renewable resource revenues are small or non-existent. Their philosophy was that the oil and gas that has made Alberta rich does not belong only to those who happened to be alive when these resources were discovered and tapped. For example, at the Edmonton public hearings Edward Chambers expressed concern about the government's decision not to put interest earned back into the Fund. He said that the stewardship ethic, which was a part of the original idea of the Fund, had become lost along the way.

I have four children at home. Until they are 18 they have no say in it, but the Fund is supposed to be there for them.

- Lethbridge Round Tables



Other specific comments about the Fund's objectives:

- Nick Van Rost Tonningen (Edmonton) suggested three new objectives for the Fund. His suggestions were: (1) optimizing the financial benefits (of the Fund) for the current generation of Albertans, (2) building a suitably diversified portfolio of marketable investments, and (3) contributing to the long-term viability of the provincial economy.
- Jason Kenney, Alberta Taxpayers' Association, said that Fund's objectives have been too open to political uses and that the government's diversification efforts have been "notoriously unsuccessful." Consequently, the Fund's objectives should include a "long-term obligation to share with our descendants the one-time only benefit we have received from resources." Mr. Kenney suggested liquidating portfolios that exist more because of what he called "public policy" than because of their rate of return.
- This comment emerged from the round table discussions in Medicine Hat:

In the objectives for the Fund, change the word "diversify" to "stabilize." Government has been opening up its wallets for the private sector and saying, "How much do you need?" Business will come to Alberta without these lollipops because this is a good place to do business.

Transparency

Many felt that Albertans do not have enough opportunity to learn about and understand the Fund: its actual value, how the money is invested, and other related information. Others felt that such information is available, in such sources as the annual report, but that more should be done to educate more people about the Fund and to provide information to them in a more accessible and simple form. One suggestion was an annual or semi-annual brochure that briefly notes the highlights of the Fund's management over the past year.

At the Calgary public hearings, Tom Sindlinger said, "Albertans find their Fund remote; they don't feel that they participate in it and make decisions about it." He suggested that Alberta could learn from the Alaska fund, which has clearly stated and simple objectives that everyone can understand. The objectives of the Alaska fund are "to earn a rate of return and ensure that the fund is inflation-proof."



Management and administration

Almost invariably, those who favoured keeping the Fund said that its management needs to be changed. Currently, the Fund is managed by the government. Cabinet makes investment decisions, except for two portfolios that require day-to-day investment decisions. These two portfolios are managed by staff of Alberta Treasury.

Although a few people said they had no problems with this administrative procedure, many people thought it was important to place the Fund at arm's length from the political process. Some felt that politicians may be tempted to use the Fund to "buy votes."

Others said that private sector money managers are better qualified to obtain a high return on the money invested. People also saw a need for a long-range vision for the future of the Fund, and they thought private sector money managers might be well qualified to help in developing this vision.

The idea of an independent board of directors came up frequently. Some saw a board on which half the members were from the government (politicians from all parties and Alberta Treasury staff) and half were from the private sector.

Some mentioned that a change in management should be directed towards streamlining the Fund and making it more efficient. (One comment: "Don't create another bureaucracy.")

Place control of the Fund in the hands of concerned Albertans.

- Brian Stein, Edmonton Public Hearings

Where and how to invest

Many people suggested that the Fund should be invested only in Alberta or only in Canada. (It is not actually possible to invest all of the Fund's assets within the province; the market is too small.) This discussion was partially about helping our own people, and partially about ensuring that the investments are reasonably secure. Some felt that overseas markets are volatile, while others said that global investments make good sense.

Clearly, how funds are invested depends on the goals of the Heritage Fund. Is the goal to take some risks to maximize the investments, or is it simply to keep the money safe and secure for future generations? Albertans discussed this issue often during the review process, but, probably because it is a complex subject, no clear directions emerged.



In Fort McMurray, one person suggested that the Fund should be set up so that it would yield higher interest rates when oil prices are dropping. As well, participants in the review process frequently advised the government to sell off portfolios that are not providing a good rate of return.

A number of participants in the public hearings were opposed to investing in the private sector in order to diversify Alberta's economy.

Monitoring and evaluation

Even though many people suggested a type of arm's-length management, they also generally recognized that government has an important role in monitoring the Fund and evaluating its performance.

Some said this evaluation role should include a regular review similar to the one that is taking place in 1995 (perhaps a review every five years). These people thought that the government should remain flexible about the Fund's future because it is extremely difficult to see 20 or more years down the road.

Others did not agree: they proposed that the Fund's terms of reference include a statement that it can be liquidated only by referendum. These people would like to see a Fund with a long-term legal obligation to share this "one-time only" benefit with our descendants.

Size of the Fund

Many people said that the Fund should be built up, or at the very least it should keep up with inflation. There was general recognition, though, that finding the money to do this is not easy in the current fiscal environment. At the Red Deer public hearings, one person said that building up the Fund would be "a bit like turning a supertanker in the ocean."

Others felt that the Fund should be capped, partly because little or no money is available right now to build it up, and partly because there is now less need to develop capital assets in the province. As one person in Lethbridge put it, "I think we already have enough parks."



Use of the interest

People had many different ideas about appropriate uses of the revenue that the Fund earns. These ways of using the interest from the Fund were suggested:

- ▣ pay down the debt
- ▣ establish special projects (for example, research and development*, providing mortgage loans, helping people with low incomes or no income, preserving Alberta's historical artifacts)
- ▣ maintain the Fund (keep up with inflation) and/or increase the total value of the Fund
- ▣ cover the unfunded liability of public pensions
- ▣ pay dividends to Albertans, pay a percentage of their property taxes or utility bills if they are renters, pay part of people's health care fees.

* Dr. Jean-Michel Turc of the Alberta Cancer Board stated that their agency cannot conduct effective medical research unless they are assured of regular, long-term funding. He suggested that the Heritage Fund could provide this kind of support for the Cancer Board's research.

The topic of dividends was controversial. Some thought dividends would help to make the Fund more visible or would help people who are having difficulty making ends meet. However, most people seemed to think it would not be a good use of the money. One person described the distribution of dividends as "paternalistic," and another said (at the Red Deer Round Tables), "I'm amazed that such a suggestion would come up and I hope it never does again."

Ideas about restructuring the Fund

A few people had suggestions for a broad restructuring of the Fund. For example, several presenters at the public hearings suggested a long-range plan to manage the Fund and address the provincial debt at the same time. This might mean using portfolios in the Fund that have a low rate of return to pay off the debt (and possibly the interest from the Fund as well), and keeping other investments that are earning a good rate as a "cushion" to support social programs or other needs of Albertans.

In Calgary, Tom Sindlinger said that the Fund should be personalized and privatized. He said that the public's perceptions would be more positive if the Fund had an independent board of directors and independent management, and if its earnings were devoted to a specific purpose. Mr. Sindlinger suggested a new name, the Alberta Health Care Fund, with all earnings directed towards health care. In this way, he said, Albertans would feel more directly involved and take a personal interest in the Fund.



Richard Plain (University of Alberta Department of Economics and Public Health Services) suggested liquidating the Heritage Fund as it stands today and creating a Stabilization Fund in the order of \$5 billion. The remainder of the proceeds from liquidating the Fund would be used to pay down the debt. He said the \$5 billion figure was just a guess; what he had in mind was to establish a fund that would help the government to accommodate a two- to three-year downturn in revenues. Dr. Plain said that Alberta needs a stabilization fund because it relies so heavily on revenues from international commodities that can fluctuate dramatically (oil and gas, agriculture and forestry).

Similarly, Glen Mumey (University of Alberta Faculty of Business) suggested that the province retain some of the Fund for a cash reserve, but sell assets over \$6 billion. The major benefit of taking this route, he said, is that taxpayers and creditors will have the assurance that the Alberta government no longer has a pool of money for discretionary government investment.

In Edmonton, Nick Rost Van Tonningen proposed what he described as an Alberta Debt Amelioration Program Transfer Corporation (ADAPTCO). This public sector corporation would have a board of directors and provision for periodic review. It would encompass the assets that are currently in the Heritage Fund (except capital projects), the provincial debt, a portion of the tax base (for example, 30% of revenues from non-renewable resources), and other assets necessary to ensure an adequate credit rating. This corporation would try to optimize financial benefits through a diversified portfolio and attempt to contribute to the long-term viability of Alberta's economy.



IV. Recommendations

Members of the Review Committee carefully studied the input they received. At the end of the review process, the overall, majority opinion became quite clear:

Albertans want to keep the Heritage Fund, but they are not content with the status quo.

Most Albertans believe the Fund is a valuable resource that belongs to the people of this province, both those who live here now and those who will live here in the future. They think that, just as households try to have a cushion or a buffer to carry them through tough fiscal challenges, government should have a contingency fund, which is what they feel the Heritage Fund provides.

At the same time, almost everyone sees a need to change the way the Fund is managed and administered. People repeatedly expressed a desire for a renewed and stronger Heritage Fund. They said they are concerned about the Fund's failure to grow in recent years and/or even keep up with inflation. Albertans want a growing Fund, or at least one that is maintaining the current level of savings. They want the Fund to be invested wisely and administered at low cost.

As well, Albertans want the Fund to have open, accountable management. They want to be able to understand what is being done with their money, and to feel a greater level of personal involvement with decisions that are made about the Fund. (Many people said they appreciated being asked for their opinions.)

Most people who took part in the review of the Fund are also well aware of the challenges involved in making the transition to a stronger and more effectively managed Fund. They realize that tremendous financial challenges lie ahead. The government is just beginning to address a huge debt, and continues to face the difficulties inherent in keeping annual government expenditures in line with revenues while still providing the health, education and social programs that Albertans need and want.

In 1995, the Heritage Fund is operating in a much different fiscal and social environment than when it was first established 18 years ago. Nonetheless, our society still believes in planning for the future and providing for the well-being of our children and grandchildren.



Therefore, the Review Committee presents the following recommendations. These recommendations are intended to help the government develop a clear, long-term vision for the Fund. We, the members of the committee, see a bright future for the Heritage Fund and for the overall economy of Alberta. We are convinced that, with the support of Albertans and strong leadership from government, a restructured and strengthened Heritage Fund can become a reality.

The Review Committee's recommendations are based on these five guiding principles:

1. The Fund should be retained, but not at the status quo.
2. The management of the Fund should be at arm's length from the political process.
3. Private sector investment managers should be involved in investment decision making, along with Alberta Treasury staff.
4. The Fund should be more transparent; the Fund's managers should be more directly accountable to the people of Alberta.
5. The role of government is to set objectives for the Fund.

Recommendation 1. The government should keep the Fund.

Recommendation 2. The government should debate in the Legislature whether the originally stated objectives of the Fund are still appropriate in 1995.

Recommendation 3. The government should appoint an independent board of directors.

Recommendation 4. The government should define a process for appointing an independent management board for the Fund.

Recommendation 5. The government should debate in the Legislature having the government set goals for the Fund and guidelines under which the board of directors will operate.

Recommendation 6. The government should require the board of directors to provide simple, factual and readable annual updates on the Fund's performance.



Recommendation 7. The government should debate in the Legislature having a requirement that the board of directors develop three-year business plans.

Recommendation 8. The government should debate in the Legislature evaluating the board on the basis of the Fund's financial performance.

Recommendation 9. The government should involve private sector investment managers in investment decisions, along with the staff of Alberta Treasury.

Recommendation 10. The government should debate in the Legislature how to maximize the Fund's income in the context of the objectives of the Fund.

Recommendation 11. The government should debate in the Legislature how to deal with non-performing portfolios in the context of the government's debt management strategy.

Recommendation 12. The government should debate in the Legislature maintaining the Fund at its 1995 value.

Recommendation 13. The government should debate in the Legislature the option of retaining earnings to increase the value of the Fund, after the net provincial debt is reduced to zero.

Recommendation 14. The Standing Committee on the Alberta Heritage Savings Trust Fund Act should be disbanded and its functions undertaken by the Standing Committee on Public Accounts.



Appendix A. List of Participants

Oral Presentations

Note: Presenters who also provided a written submission are indicated with an asterisk.

Alberta Cancer Board
Edmonton

Ray Domeij
St. Paul

John Bailey
Calgary

Viola E. Duplessis*
Boyle

David J. Baugh*
Sylvan Lake

Iris Evans*
Reeve - Strathcona County
Sherwood Park

Oscar Blais
Grande Prairie

Oscar Fech
Calgary

B. Y. Card
Lethbridge

Harold Ganske
Claresholm

Edward J. Chambers*
Western Centre for Economic
Research
Edmonton

Scott Garner
Fort McMurray

Dave Chipchura*
AUPE
Camrose

C. R. Guest*
Calgary

Adam Coleman*
Wainwright

Richard Harpe
County of Grande Prairie
Councillors
Valhalla Centre

Lloyd Davis
Wainwright

Douglas Henderson*
Edmonton

Carol Anne Dean*
Alberta Union of
Public Employees
Edmonton

Milton Hommy
Grande Prairie



Ken Ikle
Lethbridge

Joyce Irvine
Cochrane

Bob Kelly
Fort McMurray

Jason Kenney
Alberta Taxpayers Association
Edmonton

Pam Kirkwood
Lethbridge

Tony Koopmans
Fort McMurray

Roger Lehr
Mayor of Wainwright
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John A. MacDonald*
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Sean McManus*
AUPE
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A. K. Miller*
Winterburn

Laurence Miller
Fort McMurray

Bill Nash
Grande Prairie

Albert Opstad*
Edmonton

Adil Pirbhei*
Edmonton

Richard Plain*
Department of Economics
University of Alberta
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Nick Rost Van Tonningen*
Edmonton

Mike Rudakewich
Fairview

Jeff Ryder
AUPE
Red Deer

Norbert Salamon
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Alfred Schalm*
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Tom Sindlinger*
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John Sloan
Grande Prairie

Brian Stein*
Edmonton

Lawrence Sutherland
Edmonton

Clarence Taylor
Provost

Dr. Jean-Michel Turc*
Alberta Cancer Board
Edmonton



Ron Tyrell
Edmonton

Dave White
Lethbridge

Allan Warrack*
Faculty of Business
University of Alberta
Edmonton

Nina Wright
Sexsmith

Paul Ziemann
Edmonton

Written Submissions

These are in addition to submissions provided with oral presentations.

Note: Hundreds of Albertans forwarded letters and notes about the future of the Heritage Fund with their completed questionnaires, and many more wrote to their MLAs or to the Premier and the Provincial Treasurer. The following list includes the names of people who wrote directly to the Review Committee, separately from the questionnaire survey.

Freda Allen
Lethbridge

Mr. and Mrs. P. Chin
Calgary

Tracy Anderson
Lethbridge

M.K. Christie
Edmonton

Esther Atkinson
Rocky Mountain House

Peter Christie
Taber

Wally Baer
Calgary

City Council
Red Deer

John Ballheim, President
Alberta Chamber of Commerce
Edmonton

Angus and Gloria Cochrane
Alhambra

Henry C.W. Bosman
Lethbridge

L.E. Dennis
Calgary

Paul Brix-Kugler
Edmonton

Don and Brenda DeVries and Family
Bashaw

H.A. Carswell
Calgary

Susan Endersby
Okotoks

W.S. Bill Caswell
Calgary

Mary Filipchuk
Calgary



E. Fishchback
Oyen

Don Forest
Calgary

G.W. Govier, President
Govier Consulting Services
Calgary

C.R. Guest
Calgary

Ron and Alice Hand
Lacombe

Ross Haynes
Edmonton

Glenn Holmes
Calgary

Carry Hutton Kelly
Edmonton

Robert Jackson
St. Albert

J.H. Jamieson
Sherwood Park

Doris Johnson
Edmonton

Delbert Kenney
Grande Prairie

Art Lind
Buck Creek

L.R. Lind
Buck Creek

Heather Loomer
Alhambra

Brian Marko
Edmonton

Donald McCarthy
Edmonton

Lloyd McConnell
Smith

Don H. Meredith
Duffield

Gene Misener
Innisfail

Doug Mitchell, President
Calgary Chamber of Commerce
Calgary

Glen Mumey
Faculty of Business,
University of Alberta
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Roy Parsons
Rocky Mountain House

Ken Rattenbury
Rattenbury Financial Management
Edmonton

Stanley C. Reynolds, President
Reynolds Museum
Wetaskiwin

David Salopek
Edmonton

Elizabeth Saubek
Buck Creek

R.B. Snyder, Senior Vice President
Nova Gas Transmission
Edmonton



V.W. "Slimm" Spendlow
Pincher Creek

Greg R. Ulveland
Edmonton

Steve and Audrey Szabo
Lethbridge

Terry Wildman
Westerose

E. Wm. Tait
Calgary

Bill Williams
Bon Accord

Paul Takahashi
Lethbridge

D. Youngs
Edmonton

Diane Taylor
Lethbridge

Richard Zonneveld
Medicine Hat

Roundtable Participants, Observers, Facilitators and Volunteers

Barb Acton
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Jonathan Bayley
Grande Prairie

Rob Anders
Calgary

Scott Bethure
Wainwright

Jim Anderson
Wainwright

Pete Bobryk
Czar

Tracy Anderson
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Richard Bonin
Edmonton

Donna Arrison
Red Deer

James E. Bonsor
Grande Prairie

Larry & Bonnie Atkins
Wainwright

Henry Bosman
Lethbridge

John Bailey
Calgary

Norma Bosman
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Roland Barsalou
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Red Deer College
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Steen Christensen
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John Clement
Medicine Hat

Margaret Coe
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Doug Colbin
Irma

Adam Coleman
Wainwright

Allan Coleman
Wainwright

Norman Coleman
Wainwright

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David Cuillier
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Rieg Dawson
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Red Deer

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Gerry Dobko
Grande Prairie

Mrs. Domeij
St. Paul

Brett Donaldson
Edmonton

Cliff Downey
Edmonton

Grant & Christine Doyle
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Sherry Dyck
Medicine Hat

Shirley A. Elder
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Don Erno
Sexsmith

Iris Evans
Sherwood Park

Oscar Fech
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Wainwright

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Dick Flis
Edmonton

Gerry Foder
Lethbridge

Rosemary Foder
Lethbridge

Robert Forbes
Red Deer

V. Alan Foster
Calgary



Nancy Fraser
Grande Prairie

Wendel Frey
Taber

Tom Fuller
Edmonton

Tom Ganger
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Harold Ganske
Claresholm

Penny Gardner
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Scott Garner
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Marj Hansen
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Maureen Harcourt
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Andre Harpe
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Peter Haskin
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Peter Haskins
Stony Plain

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Ross Hay
Red Deer

Vera Hay
Wainwright

Margaret Heath
Grande Prairie

Doug Henderson
Grande Prairie



Rick Hilborn
St. Albert

Ellen & Rick Kildaw
Grande Prairie

Josephine Hill
Wainwright

Dave Kirschner
Fort McMurray

Milt Hodgins
Fort McMurray

Tony Koopmans
Fort McMurray

Sylvia Holcombe
Edmonton

Olga Koroluk
Wainwright

Milton Hommy
Grande Prairie

Cor Labots
Edmonton

Maureen Houghton
Fort McMurray

Michael Lancaster
Sherwood Park

Lauraine Howatt
Grande Prairie

Lyn Landreville
Calgary

Phil Hyde
Red Deer

Roger Lehr
Mayor of Wainwright
Wainwright

Ken Ikle
Lethbridge

Gordon Lentz
Medicine Hat

Peter Jahn
Calgary

Marjorie Little
Lethbridge

Terry James
Fort McMurray

Wyman Lockhart
Viking

Karen Jiggins
Calgary

Harry Looner
Wainwright

Herb Joseph
Edmonton

Lil Looner
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Bob Kelly
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Lawrence Loyek
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Sylvia Kennedy
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Barb Lyall
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Kimberly Lyll
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Robert MacDowall
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D. Macnab
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Kris Maringer
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Burt Marquardson
Lethbridge

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Don Martin
Edmonton

Peter & Florence Massie
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Shane McAllister
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Gertrude McArthur
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Donald McCarthy
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Mike McGuire
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Sherry McLeam
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Steven McPhee
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Walter Melvin
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Mike Miles
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Heather Miller
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Len Mitzel
Etzikom

Carol-Anne Moore
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Tammy Morrison
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Brian Stein
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